Introduction

Political and administrative structure
Under the Constitution of the Russian Federation all state bodies are divided into:
— federal bodies;
— bodies of the “constituent subjects” of the Russian Federation;
— and local (municipal) bodies.

The holder of the highest office in the Russian Federation is the President.

The President
Under the Constitution of the Russian Federation, originally adopted on 12 December 1993 and from time to time amended (the “Constitution”), the President is the Head of State. The term of office of the President is six years. The President may only serve two consecutive terms. In March 2018 Vladimir Putin was re-elected as President, which means he will not be able to run for the post in 2024.

The President appoints the Prime Minister and the Chairman of the Central Bank of Russia. Both appointments must be endorsed by the lower chamber of the Russian parliament (the State Duma).

The President determines the main trends of Russia’s domestic and foreign policy and represents the country in both domestic and foreign affairs. He is Commander-in-Chief of the Russian Armed Forces.

The President has broad authority to issue executive orders and directives that in practice have the force of law. Under certain circumstances, he has the right to dissolve the State Duma.

The Government
The Government of the Russian Federation exercises executive power at the federal level, with the Prime Minister acting as its head. The Government is required to enact the decisions made by the President and the laws adopted by the federal legislature.

The federal legislature
The Federal Assembly (the “Parliament”) consists of two chambers: an upper chamber called the Federation Council and a lower chamber called the State Duma. The Parliament exercises legislative power in Russia at the federal level.

There are 170 seats in the upper chamber of Parliament. They are occupied by representatives of the executive and legislative branches of the Russian regions.
The State Duma consists of 450 deputies who are elected by proportional representation. State Duma members are elected for five-year terms.

Federal bills may originate in the upper chamber of Parliament. Alternatively, they may be submitted by the President, the federal Government, regional legislatures or a member of any chamber of the Parliament. The Constitutional Court and the Supreme Court may originate bills on issues which are within their authority. Bills are first considered by the State Duma and must pass three readings. After being adopted by a majority in the State Duma, bills are considered by the Federation Council. If a bill is rejected by the Federation Council, a Conciliatory Commission may be established. This consists of representatives of the State Duma and Federation Council who review and amend the bill before it is presented to the State Duma again for consideration.

Once a bill is adopted by the Federation Council, it must be signed by the President. The President has the right of final veto which, if exercised, can only be overridden by a resolution passed by two-thirds of the members of the State Duma and the Federation Council.

The judiciary
The judiciary is split into three branches:— the courts of general jurisdiction;— the commercial ("arbitrazh") courts; and— the Constitutional Court.

There is a federal system of courts and a system of local courts in each Russian region.

The **courts of general jurisdiction** deal with criminal, civil and administrative cases involving individuals who are not engaged in business activities. Cases are heard by the district court unless they fall within the jurisdiction of the magistrates’ courts or martial courts. The senior court of general jurisdiction is the Supreme Court of Russia (the "Supreme Court").

Decisions of the lower courts can be appealed through the intermediate courts, as far as the Supreme Court.

The **commercial ("arbitrazh") courts** deal with economic disputes involving individuals engaged in business activities and disputes between legal entities and their participants (i.e. their shareholders). The commercial court system consists (in an increasing order of hierarchy) of the regional commercial courts, the commercial courts of appeal, the federal district commercial courts and the Supreme Court. Within this system, there is also a court specialised in the review of intellectual property claims, the Intellectual Property Court.

The **Constitutional Court** has jurisdiction to decide on the constitutionality of federal and regional legislation and regulations. This court also resolves jurisdictional disputes.

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1 Please see the IP Court section on page 132.
between the federal and regional authorities and is able to interpret and provide guidance on the provisions of the Constitution.

**Regional and local political structure**

In accordance with the Constitution, the Russian Federation consists of 85 “constituent subjects”, i.e. regions within the federation. Regions are granted a certain degree of autonomy over their internal economic and political affairs. As cities of federal significance, Moscow, Saint Petersburg and Sevastopol enjoy the status of region.

The head of the executive branch of each region is directly elected in regional elections or by the legislative body of the respective region (if such option is set out in the Constitution or the law of such region).

The Constitution sets out a general list of powers that are within the exclusive federal jurisdiction. Some powers are jointly exercisable by the federal and regional authorities. The regional authorities are then allocated all residual powers. Regional powers include the authority to manage regional property, establish regional budgets, collect regional taxes and maintain regional law and order. The Constitution also gives regional bodies the authority to pass laws, provided those laws do not contradict the Constitution or existing federal laws.

The lowest level of the political system is local government which operates under an intricate two-tier system: municipalities are subdivided into city districts on the one hand and municipal districts on the other, with municipal districts being further subdivided into urban and rural settlements. Municipalities have their own budgets and depending on how much authority the regional government has delegated to them, they may enjoy certain limited taxation powers. They are also involved in the management of municipal land (they can act as landlords in lease agreements, allocate land plots for construction and act as sellers during the privatisation of municipal land).

**Legal environment**

**General background**

The Russian legal system generally belongs to the continental European legal family. The legal structure developed at a rapid pace during the 1990s. During this period, significant reforms were enacted in almost every area of law as the country moved away from its Soviet command economy.

The Constitution, federal laws and regional laws form the foundation of the Russian legal system. Presidential executive orders, decrees of the Russian Government and the decisions of various ministries are used to support and develop the provisions of primary legislation.

The Constitution states that general principles of international law and international treaties are part of the Russian legal system. Consequently,
if Russia is a signatory to an international treaty containing provisions contrary to the provisions of any domestic legislation, the provisions of the international treaty will prevail. The Constitution, however, takes precedence over any contradicting provision of an international treaty.

The Russian Civil Code (the “Civil Code”) sets out the foundation of civil law and is the key source of law for business. As part of the reform, significant amendments to the Civil Code concerning corporate law and the law of obligations came into force in September 2014 and June 2015. These amendments form the most significant development since the shaping of modern corporate and commercial law in Russia. Today, a number of concepts which have for a long time been common to international practice in corporate, debt and general commercial areas, are also recognised and widely used in Russia, in particular:

— corporate agreements;
— the “four-eyes” principle;
— the conditional performance of obligations;
— the concept of representations (“zavereniya ob obstoyatelstvakh”) (an intended equivalent of “representations” and “warranties” as used in contracts under English law);
— the concept of the reimbursement of losses arising from the occurrence of certain events specified in a contract (the intended equivalent of the English law concept of an “indemnity”);
— new types of civil law contracts, such as options, framework agreements and subscription agreements;
— rules for the conduct of negotiations to conclude a contract; and
— new mechanisms to secure the performance of contractual obligations by the parties.

These highly significant changes to the Civil Code are intended to accommodate the growing trend of submitting complicated transaction documents to Russian law and Russian courts instead of English law and international arbitration which were traditionally the “well-trodden path” in Russia. It is yet to be seen how the new concepts and provisions will be enforced by courts and arbitral tribunals. Nevertheless, in practice, companies are actively using the new concepts in their projects.

WTO
Following 18 years of negotiations, Russia finally joined the World Trade Organisation in summer 20122.

At the time, WTO accession sent a positive signal to foreign investors. However, notable changes such as a material drop in tariffs on imported goods and changes to the quotas for foreign participation in the insurance

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2 Please see the Customs regulations chapter on page 77.
sector have not yet come into effect because of the long grace periods that are allowed. For example, under WTO rules, foreign insurance companies will be able to open branch offices in Russia, but this is not required to take effect until nine years after accession. The relevant bill to implement this change is in progress and has yet to be submitted to the State Duma.

**Foreign investment**

**Legal regulation**
The main legislative act governing foreign investments is Federal Law No. 160-FZ “On Foreign Investment in the Russian Federation” dated 9 July 1999. This law states that foreign investors and investments will be treated no less favourably than domestic investors and investments, subject to certain wide-ranging exceptions.

Exceptions/restrictions may be introduced, amongst others, to protect the Russian constitutional system; the morality, health and rights of third parties; or in order to ensure state security and/or defence. Some of the sectors concerned are commented on separately below. By and large, foreign investment is permitted in most sectors of the Russian economy, including investment in portfolios of government securities, stocks and bonds, direct investment in new businesses, in the acquisition of existing Russian-owned companies and in joint ventures.

Foreign investors are protected against nationalisation or expropriation, unless this is provided for by federal law. In these cases, foreign investors are entitled to receive compensation for their investment and other losses.

**Exclusions/restrictions**
In addition to the so-called “Strategic Industries Law”³, restrictions on foreign investment exist notably in the insurance and banking sectors.

Federal Law No. 4015-1 “On Insurance” dated 27 November 1992 currently prohibits foreign investors from owning more than 25% of the total market for domestic insurance. Insurance companies in which foreign shareholders own more than 49% of the charter capital may not engage in certain types of insurance business, including, for example, life assurance. The existing limitations will be partly lifted by the legislative amendments which will be considered in connection with WTO accession.

In the banking sector, the Central Bank of Russia has the right to use reciprocity as a criterion to specify the types of business that subsidiaries or branches of foreign banks may be licensed to operate in Russia. In practice, however, branches of foreign banks are not able to carry out any banking activities on the Russian market. Additionally, a ceiling on the total amount of foreign bank capital, as a percentage of the total bank capital in Russia, can be imposed by federal law; however, no

³ Please see the Common forms of business structures for foreign investors chapter on page 34.
such limit applies at the time of writing. Under WTO rules, any such ceiling may not be less than 50%.

Sanctions
In 2014, the European Union and the United States of America (among others) imposed individual sanctions on certain Russian and Ukrainian nationals and entities that they believe to be responsible for the actions which led to the declaration of sovereignty by Crimea, and subsequently, it becoming part of the Russian Federation. Sanctions targeting certain sectors of the Russian economy (or so-called “sectoral sanctions”), as well as regional sanctions prohibiting certain economic activity related to Crimea and Sevastopol, have also been adopted.

In retaliation, Russia adopted counter-sanctions to prohibit the import of certain agricultural products, raw materials and foodstuffs from countries that have imposed sanctions on Russia. In parallel, it also launched an import substitution policy4.

2018 marked a turning point in terms of sanctions for Russia. In May, the US enacted legislation that may result in non-US persons being held liable for knowingly facilitating “significant transactions” for or on behalf of persons sanctioned under Ukraine-/Russia-related sanctions imposed by the US (so-called “secondary sanctions”). In October 2018, the EU adopted a new sanctions framework in connection with the use and proliferation of chemical weapons which does not expressly target Russia, but is expected to be used against Russia in future.

Again, Russia reacted to these developments. Firstly, it adopted a framework law on measures against unfriendly actions of the US and other foreign states in June 2018 and imposed the first sanctions under such law against Ukrainian individuals and legal entities in November 2018. Secondly, it imposed duties on a selection of goods imported from the US from 6 August 2018. Thirdly, a ban on the import to Russia of a number of goods of Ukrainian origin or transiting through Ukraine was declared in December 2018 and expanded in scope in December 2019.

Sanctions against Russia
Even though each national sanctions regime will vary in scope, the restrictions imposed can be broadly characterised as follows.

Under the individual sanctions regime, travel restrictions and asset freezes have been imposed on individuals and entities listed under the relevant legal acts.

Sectoral sanctions have been imposed on the following sectors of Russian economy:

— **Energy sector**: the sale, supply, transfer or export of items for

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4 Please see the import substitution and production localisation in Russia chapter on page 183.
certain types of oil exploration and production projects in Russia and the provision of associated services are prohibited, or subject to prior authorisation by the competent authorities of the exporting country. Departing from previous widely worded prohibitions, in December 2019, the US adopted a targeted approach in the energy sector by restricting activities connected with the construction and operation of the Nord Stream 2 and TurkStream pipelines.

— **Financial sector:** major Russian financial institutions, as well as certain defence and energy companies, have been prohibited from dealing with bonds, equity or similar financial instruments with a maturity exceeding 14, 30 or 90 days. It is also prohibited to make loans or credit available to any of the entities covered by the measures.

— **Defence sector:** Russia is subject to a weapons embargo. In addition, supplying dual use goods and technology to Russia is subject to individual authorisation by the respective authorities of the exporting country. The authorisation will be denied if those items are intended for military use or for a military end-user. This type of sanction also affects the manufacture of civil goods and equipment.

The activities prohibited under regional sanctions include importations from and exportations to Crimea, as well as making new investments (either in general or in certain sectors).

As a result of some recent measures aimed at the Russian state, US banks can no longer participate in the primary market for non-rouble denominated bonds issued by the Russian sovereign and lend non-rouble denominated funds to the Russian sovereign.

Sanctions imposed on Russia are not prohibiting all commercial activity. They are focusing on very specific individuals, entities, regions and economic sectors. Companies wishing to contract with Russian entities should carry out enhanced due diligence to ensure that they do not become involved in activities prohibited under the relevant sanctions regime.

**Lobbying**

Given how slowly the legal culture has developed in Russia, businesses tend not to expend their lobbying efforts on attempting to influence the drafting of new laws or the actions of those drafting them. Instead, businesses tend to seek *de facto* special treatment, such as tax deferments, customs benefits, operation licences and the right to engage in certain kinds of activity. In doing so, however it may be that these companies expose themselves unduly to “political risk” upon any change of administration and companies entering the market need to consider how secure such concessions might be for their business in the long term.
There are not many legally recognised lobbying associations with a large membership base. Prominent examples of associations that do exist are the Association of Russian Banks, the Chamber of Commerce and Industry of the Russian Federation, the Federation of Independent Trade Unions of Russia and the Russian Union of Industrialists and Entrepreneurs.